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**UCS Comments Draft Transportation Fuel Transition Plan and
SB237 report**

Additional submitted attachment is included below.

To: California Air Resources Board, California Energy Commission
From: Jeremy Martin
Date: July 6th, 2026
Subject: Draft Transportation Fuel Transition Plan and draft Senate Bill 237 Assessment

Thank you for the opportunity to comment on this important work. We appreciate the hard work done by California Air Resources Board (CARB), California Energy Commission (CEC) and multiple additional state agencies to develop the draft Transportation Fuel transition Plan (TFTP), the draft Senate Bill 237 Assessment (SB237A) and the important additional information provided in the Joint Agency Report - 2025 Review of the Price of Gasoline in California and Related Effect on State Revenues (JAR). These reports provide the factual basis on which to base critical decisions.

We support the SB237A recommendations to manage the transition deliberately and prioritize reliability and proactive transition governance. The report is thorough, well written and provides a strong basis for the recommendations. The SB237 report also reflects the important work of Vice Chair Gunda and his staff over the last 14 months to convene stakeholders and develop shared understanding of the facts and develop workable path forward. We likewise appreciate the publications of the draft TFTP. We called for the development of a Petroleum Phaseout Plan during the 2022 Scoping Plan process¹, participated in the associated working group, and appreciate the attention CARB and CEC have given to input from UCS and many other stakeholders throughout this process. The TFTP provides valuable information and new modeling by ICF to guide the mid-transition.

Our substantial comments focus on a few key areas: fuel supply stabilization strategies, learning from other US regions, adapting physical infrastructure to address geographic constraints, market structure, fuel regulations and the ICF modeling.

Fuel supply stabilization strategies

While the mid-transition poses complex challenges, some important solutions are less complicated than they appear. A central thread connecting California's fuel market challenges is concentrated market power, particularly in the hands of Chevron and Marathon, in a market cut off from the rest of the US. In a declining market with large barriers to entry, it is unlikely that new entrants will enter California to compete with Chevron and Marathon directly, establishing refineries and vertically integrated retail networks. But by integrating California's fuel market into

¹ blog.ucs.org/jeremy-martin/california-needs-a-petroleum-phaseout-plan/

the broader US market and addressing barriers to competition throughout the supply chain, California can restore healthy market function that will ensure that fuels are available at fair prices.

This can be accomplished by breaking down the barriers that keep the California market isolated and closed to competition. The barriers to greater integration and competition stem from geographic constraints, market structure, and outdated regulations. Each of these barriers can be addressed with thoughtful coordinated policy.

Learning from other US regions

California is not the first US state to wind down its petroleum industry. Pennsylvania had the first big oil boom, decades before the California oil industry started. We appreciate that the TFTP references some key lessons learned from the closure of the Philadelphia Energy Solutions (PES) oil refinery. One additional lesson is that while PES operators blamed environmental policies for their financial troubles, the basic problems threatening the economic viability of the PES refinery came from changes in relative price of crude oil available to PES versus competing refineries. Concessions made by state and federal policymakers could not change these fundamental competitive disadvantages.

Like the PES case, the public discourse on the future of California refineries places an exaggerated importance on policy and an inadequate focus on business fundamentals that are beyond the control of California policymakers. These fundamentals include differences in the costs of crude, and differences in the prices and markets for products. Other refining centers in the US or globally likely have advantages over California refineries that are beyond the power of California legislators to address. California legislators and regulators have been extremely sympathetic to the demands of the oil industry, offering substantial concessions in both SB237 and in recent amendments to Cap and Invest. But regardless of these interventions, it is entirely plausible that California in-state refining capacity will continue to decline more quickly than demand. While this will reduce economic activity in that sector, it has no clear relationship to the cost or availability of transportation fuel for consumers.

Oil industry talking points suggest that reduced in-state production of crude oil and refined products will put consumers at risk. WSPA urges California regulators to limit imports and maintain an isolated market in order to protect in-state refineries from competition. This would be a big mistake because incentives provide no assurance against additional refinery closures, the cost for consumers of an uncompetitive market is too high, and the incentives facing a highly concentrated petroleum market are not aligned with the best interests of stable and competitive fuel markets.

The steady reduction of East Coast refining capacity changed the share of imported fuel, but it did not lead to major price increases for petroleum product consumers in Pennsylvania or other mid-Atlantic states. The region has had reliable access to fuel supplied through an evolving mix of in-state refineries, fuel imported from other US refining centers by pipeline, and international imports. Other regions like Florida lack refining capacity and even pipelines and, thus, rely on Jones Act ship deliveries. The point is that California can and must ensure safe, reliable and affordable fuel supply independent of the continued operation of any particular refinery.

Adapting physical infrastructure to address geographic constraints

California needs to ensure it has adequate infrastructure to import the finished products it needs. For the next two years this depends largely on marine terminals and fuel storage. However, changes in the product pipeline network, including the reversal of pipelines currently used to export fuels, will offer the opportunity to import finished petroleum and renewable fuel products into California from the rest of the US. Within the state, excess crude oil pipeline capacity could also be repurposed to move finished products between the northern and southern California markets². California does not need to build significant new greenfield petroleum infrastructure, because the market is shrinking. But it does need to adapt and modernize its petroleum infrastructure to its current and future needs.

Market structure

While adequate physical infrastructure is necessary, it is not sufficient. California fuel markets are excessively concentrated in the hands of a few companies, especially Chevron and Marathon. Terminals, fuel storage or other infrastructure will do more to help consumers and facilitate competition if they are operated as merchant facilities open to all potential market participants rather than proprietary assets controlled by Chevron and Marathon.

Concentrated market power is a problem not only in refining and distribution, but also in the retail sector, where vertical integration and consolidation of the market are harming consumers. The JAR highlighted the deep disfunction of California retail gasoline markets. The extremely high price differences between branded gas stations, Chevron in particular, and unbranded stations and hypermarkets in the same neighborhoods, are unique to California and the high degree of vertical integration is the most likely cause of this market disfunction. While branded stations charge a premium nationwide, outside of California that premium is only about 6 cents per gallon, versus 31 cents a gallon in California³.

The state should intensify its focus on market concentration in different parts of the California fuel supply chain using relevant metrics like the Herfindahl–Hirschman index and compare the results to other states and regions. The TFA should also evaluate adopting a branded open supply requirement, such as is used in Maryland, allowing retail gas stations to buy fuel from any refinery. This will provide the legislature with the information it needs to consider legislation to ensure that fuel retailers can buy fuel at competitive prices and that franchise agreements, ownership of retail networks and other contractual relationships do not impede the efficient functioning of a competitive retail gasoline market.

² See page 57 of Christina Simeone and Ian Lange, San Francisco Bay Area Refinery Transition Analysis, November 2022. Online at bluegreenalliance.org/wp-content/uploads/2025/01/San-Francisco-Bay-Area-Refinery-Transition-Analysis.pdf

³ Tai Milder. May 5, 2026. The Iran Conflict and Impacts on Gasoline Prices in California. Online at autl.assembly.ca.gov/system/files/2026-05/2026.05.05-panel-1-dpmo-assembly-oversight-hearing.pdf

Fuel Regulations

Harmonization of fuel regulations can also facilitate integration of the California market with the rest of the US and increase flexibility and competition. While SB237 suggested a “Westwide spec”, EPA certified reformulated gasoline (US-RFG) is a more appropriate starting point for a harmonized gasoline regulation. In addition to considering simply adopting US-RFG, CARB should also evaluate targeted modifications that would maintain air quality while enhancing flexibility.

Our analysis suggests that the lower sulfur content of California gasoline (Ca-RFG3) versus average US-RFG is the most important variable responsible for the pollution difference between Ca-RFG3 and US-RFG. While differences in Reid Vapor Pressure (RVP) are also important, although the difference between Ca-RFG3 and US-RFG is small.

We urge CARB and CEC to evaluate a fuel blend that align with US-RFG in all properties except sulfur and RVP. Tighter specs for sulfur and maintaining the Ca-RFG3 RVP specification could ensure that an updated regulation did not increase pollution. Specifically, we suggest testing an E15 blendstock with 5 ppm sulfur and a blended fuel RVP of 7.0 psi, but that is otherwise aligned with US RFG. The E15 specific blendstock should be formulated to meet 87 AKI octane level with 15 percent ethanol content, which would lower the quantity of fossil high-octane blending components that may influence emissions.

The predictive model in the existing Ca-RFG regulation originally offered refiners flexibility in how to achieve required performance. However, the stringency of the Ca-RFG3 specifications greatly reduced that flexibility, resulting in a gasoline supply that is largely isolated from US and global markets. To maintain emissions performance while facilitating flexibility in an interconnected market, a US-RFG aligned regulation should include a permanent fee-based flexibility mechanism, allowing fuel providers to market US-RFG or conventional gasoline subject to a fee proportional to the variance in sulfur and RVP between the fuel and the California specification. Fees collected for variances should be used to support a vehicle replacement program like Clean Cars for All, aimed at retiring pre-2004 vehicles, as described in our earlier analysis⁴. Given differences in air pollution, CARB could consider regional differences in the fee schedule, setting a higher waiver fee in regions with more severe air pollution to encourage the use of the cleanest fuels in these regions while lower fees elsewhere would provide overall market flexibility.

This approach would facilitate market flexibility and rapid resupply, while maintaining air quality. Establishing a fee structure at least slightly higher than the cost of producing compliant fuel would ensure that the vast majority of fuel would remain compliant with California specs. The fee structure should be indexed for inflation and subject to updates by CARB and CEC as the state’s needs and market conditions change.

A permanent fee-based flexibility mechanism for RVP control would allow for rapid resupply when necessary and avoid the need for ad hoc RVP waivers. Managing inventories during the transition from winter to summer gasoline is a complex process with significant fuel cost impacts. The Governor has occasionally made ad hoc changes to these requirements to address short term fuel supply challenges. Ad hoc changes to regulations complicate fuel market function, and a fee-

⁴ Fuel flexibility + cleaner cars. 2026. Online at files.ucs.org/2026/fuel-flexibility-mitigation.pdf

based flexibility mechanism that is always in place would allow refiners and fuel distributors to better plan their compliance strategies and adjust as unplanned circumstances arise.

ICF modeling

The ICF modeling described in the TFTP report and Appendix B are an important addition to the analytical toolkit used to guide state policy. However, the usefulness of the analysis is limited by the lack of transparency and the limited set of inputs and assumptions used in the analysis presented in the TFTP.

On transparency, our concern is that while the model structure and inputs are clearly described in the appendix, since a very limited set of model outputs are published, the work that went into developing the model is of limited value to people without access to the model. While we appreciate that requirements to protect confidential business information may put some limits on how open the model can be, we encourage CARB to do what it can to facilitate the use of the tool to answer more questions than are possible at present. Ideally a version of the model would be made publicly available for stakeholders to use to test the impact of different inputs and assumptions. If this is not possible, publishing a more robust set of outputs based on different assumptions would be an improvement over what is currently in the TFTP.

The ICF model results represent a snapshot of fuel market expectations at a point in time that is rapidly being overtaken by events. Three key areas are especially important. The Transition-Driven Scenarios shown in figure 12 reflect an assumption that refineries will close only when the local market falls below a critical level of demand. However, the refineries closures and conversions to renewable fuels in the last few years were not driven by reaching this threshold, but by outside market factors, and proceeded well in advance of what would have been predicted by the assumptions used to develop these transition scenarios. Thus, it is possible or even likely that future refinery closures could happen much sooner than is implied by these scenarios. In-state demand for transportation fuel is only one of many factors influencing the timing of refinery closures, and an evaluation of these factors might suggest refineries closing sooner than what is reflected in the scenarios included in the TFTP.

Another key set of assumptions regards import and export constraints, which could change substantially in the next few years. Changes in the national product pipeline network, including the Western Gateway Project, may reduce the flow of finished products to adjacent states and facilitate potentially larger and more cost-effective imported fuels from other US refining centers in the US Gulf Coast or Midwest. It would be useful to evaluate how these changes to import and export flows would alter the results of the modeling.

Finally, changes in federal biofuel policies may lead to a different mix of petroleum versus bio-based fuels. CARB should include sensitivity analyses that assess how changes in these areas would affect the outcomes of the modeling.

The ICF model is a useful tool, which we hope CARB and CEC will continue to build upon, improve and make more open in the future. We encourage updated and expanded results to be included in future version of the TFA and the next scoping plan.